MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

DII5018 - INTRODUCTION TO INVESTMENT

(For Diploma Students Only)

12 OCTOBER 2015
9.00 – 11.00 AM
(2 Hours)

INSTRUCTIONS TO STUDENT

1) This question paper consists of **TEN (10) pages** (excluding the cover page).

2) There are **TWO (2) sections** in this question paper. Answer **ALL** questions in the two sections.

   Section A : 40 Multiple Choice Questions (60 marks)
   Section B : 3 Structured Questions (40 marks)

3) For **Section A**, please shade all your answers on the **OMR Sheet** provided.

4) For **Section B**, please write all your answers on the **Answer Booklet** provided.

Section A: Multiple Choice Questions, Questions 1 – 40 (60 Marks)
Instruction: Please shade your answers on the OMR sheet provided.

1) Stocks are a(n) _____ investment representing _____ of a business.

A. direct; ownership
B. direct; debt
C. indirect; ownership
D. indirect; debt

2) Typical hedge funds are characterized by

A. limited risk investment strategies.
B. low minimum investment requirements.
C. high minimum invested requirements.
D. their appeal to a large number of small investors

3) Which one of the following has the lowest level of risk?
A. Commercial paper
B. Mutual fund
C. Bank fixed deposit
D. Treasury bill

4) Syarifah purchased 100 stock from Tiong Nam Ltd a year ago at price of RM10 per share. In the past year, she has received semi-annually dividends of RM1.20 each. Today she sold the stock for RM14.50 per share. Her total income is _____.

A. RM450
B. RM240
C. RM254.50
D. RM690

5) A rights offering is the:

A. initial offering of securities to the public.
B. offering of new securities to current shareholders on a pro-rata basis.
C. sale of newly issued shares of stock to the general public.
D. sale of securities directly to a select group of investors.

6) Investment bankers who join together to share the financial risk associated with buying an entire issue of new securities and reselling them to the public is called a(n) _____.

A. selling group
B. tombstone group
C. underwriting syndicate
D. primary market group

Continued.....

7) The over-the-counter (OTC) market is a :

A. centrally located auction market.
B. involves trading in smaller and unlisted securities.
C. market solely for institutional traders.
D. geographically dispersed auction market.

8) Including foreign investments in a portfolio :

A. increases the overall risk of the portfolio.
B. reduces the potential rate of return.
C. provides potential benefits from changes in currency values.
D. limits the diversification amongst industries.

9) Fauziana invests RM1500 today at a 8% rate of return which is compounded annually. What is the future value of this investment after five years?

A. RM1824.98
B. RM2220.37
C. RM2203.99
D. RM3238.39

10) Inflation tends to have a particularly negative impact on the price of _____.

A. real estate
B. bonds
C. gold
D. crude oil

11) Keith is going to receive a payment of RM5,000 one year from today. He earns an average of 6% on his investments. What is the amount that he need to invest for this payment?

A. RM4,717
B. RM5,300
C. RM4,821
D. RM5,000

12) An ordinary annuity has cash flows that occur at the _____ of each time period and are _____ in amount.

A. beginning; constant
B. beginning; variable
C. end; constant
D. end; variable

Continued.....

13) Lestari owns the following portfolio of stocks. What is the return on her portfolio?

Stock	Amount invested	Return on stock
Amanah	RM8 000	17.5%
Borneo	RM4 000	11%
Cardill	RM12 000	4.3%

A. 8.0%
B. 9.0%
C. 9.8%
D. 10.9%

14) Combining uncorrelated assets will :

A. increase the overall risk level of a portfolio.
B. decrease the overall risk level of a portfolio.
C. not change the overall risk level of a portfolio.
D. cause the other assets in the portfolio to become positively related.

15) Which of the following represent unsystematic risks?

I. The Chief Executive Officer of a company suddenly resigns
II. The economy goes into a recessionary period
III. A company's product is recalled for defects
IV. The Federal Reserve unexpectedly changes interest rates

A. I, II and IV only.
B. II and IV only.
C. I and III only.
D. I, II and III only.

16) Which one of the following types of risk cannot be effectively eliminated through portfolio diversification?

A. Inflation risk.
B. Labor problems.
C. Materials shortages.
D. Product recalls.

17) Common shareholders are entitled to the profits that remain after all of a corporation's other obligations have been met, common shareholders are known as:

A. Residual owners.
B. Temporary owners.
C. Debt owners.
D. Owners of last resort.

Continued.....

18) Share of common stock represents ownership in a company often referred to as

A. illiquid investments.
B. equity securities.
C. fixed-income securities.
D. unit-cost securities.

19) The par or stated value of common stock is important for _____.

A. accounting purposes only.
B. helping the investor determine the stock's intrinsic value.
C. helping the board of directors determine the dividend payout.
D. helping the market determine the trading price of the stock.

20) Ronne Industries has total assets of RM42.5 million, total debt of RM29.3 million, and RM2.4 million of 6% preferred stock outstanding. If the company has 250,000 shares of common stock outstanding, its book value per share would be :

A. RM32.33.
B. RM33.60.
C. RM43.20.
D. RM52.80.

21) Woods Corporation has two different issues of common stock. One issue carries voting rights, and the other issue does not. In this situation, Woods is said to have issued:

A. buy-back stock.
B. treasury stock.
C. OTC stock.
D. classified stock.

22) Top-down security analysis:

A. starts with the fundamental analysis of a firm.
B. includes economic, industry, and fundamental analysis.
C. concentrates on the competency of the senior management of a firm.
D. centers on the past performance of a firm.

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Instruction: Question 23, 24 and 25, refer to the case below.

On June 30, the Sesame Street Company reported the following information on its financial statements.

Details	Amount
Total Current Assets	RM650000
Total Long Term Assets	RM1080000
Total Current Liabilities	RM684000
Total Long Term Debt	RM803000

23) What is the amount of the stockholder's equity in the Sesame Street Company?

A. RM277000
B. RM3217000
C. RM927000
D. RM243000

24) Calculate debt-to-equity ratio for the Sesame Street Company.

A. 3.3
B. 0.3
C. 6.1
D. 2.8

25) What is the amount of net working capital for this company?

A. RM34000
B. (RM 34000)
C. RM1046000
D. (RM1046000)

26) The measure that indicates how efficiently assets are being used to support sales is called the _____.

A. total asset turnover
B. current ratio
C. book value
D. net profit margin

27) The bond market is considered bearish when :

A. market interest rates are falling.
B. market interest rates are rising.
C. the risk-free rate of return exceeds the required rate of return.
D. more bonds are called than issued over a given period of time.

Continued.....

28) Under normal economic conditions, the major source of risk faced by investors who purchase investment grade bonds is:

A. purchasing power risk.
B. interest rate risk.
C. liquidity risk.
D. default risk.

29) Harry is considering buying one of two newly-issued bonds. Bond A is a twenty-year, 7.5% coupon bond that is non-callable. Bond B is a twenty-year, 8.25% bond that is callable after two years. Both bonds are comparable in all other aspects. Harry plans on holding his bond to maturity. What should he do if he feels that interest rates are going to decline by 2% in the near future and then remain relatively stable thereafter?

A. Purchase Bond A.
B. Purchase Bond B.
C. Purchase neither A nor B at this time.
D. Negotiate a higher rate on Bond A.

30) Kennedy was bought 7%, 5 year bond which is callable in 2 years at call price of RM2000. The bond is currently priced in the market at RM1770. What is the issue's yield to call?

A. 9.8%
B. 11%
C. 10.5%
D. 9.5%

31) Sudirman buys 15% corporate bond with current yield of 8.5%. How much did he pay for the bond?

A. RM1856.82
B. RM1764.71
C. RM1845.20
D. RM1784.98

32) The required return on a bond is equal to:

A. the real rate of return plus a risk premium plus an expected inflation premium.
B. the real rate of return plus the coupon rate plus an inflation rate.
C. the risk-free rate plus a risk premium plus an expected inflation premium.
D. the real rate plus a risk premium.

Continued.....

33) Which of the following risks are included in the risk premium for required return?

I. Interest rate risk.
II. Liquidity risk.
III. Financial risk.
IV. Purchasing power risk.

A. I and II only.
B. II and III only.
C. III and IV only.
D. I and IV only.

34) If you are an income-oriented investor and you feel that interest rates are relatively high and will decline in the future, you should purchase:

A. zero-coupon, long-term bonds.
B. long-term, non-callable bonds.
C. short-term, zero-coupon bonds.
D. long-term, freely callable bonds.

35) The market segmentation theory holds that

A. an increase in demand for long-term borrowings leads to an inverted yield curve.
B. expectations about the future level of interest rates is the major determinant of the shape of the yield curve.
C. the yield curve reflects the maturity preferences of financial institutions and investors.
D. the shape of the yield curve is always down sloping.

36) Long-term bonds are _____ than short-term bonds.

A. less risky
B. more liquid
C. subject to more uncertainty
D. less sensitive to interest rate changes

37) Which of the following are advantages offered by mutual funds?

I. Professional portfolio management.
II. Dividend reinvestment.
III. Consistent returns in excess of the overall market rate of return.
IV. Modest capital outlay for investors.

A. I and II only.
B. I and IV only.
C. II, III and IV only.
D. I, II and IV only.

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38) One drawback of investing in mutual funds is the

A. annual management fee.
B. lack of liquidity of fund shares.
C. amount required for the initial investment.
D. lack of information on the performance of the fund.

39) A type of fund that invests in property and/or mortgages is known as a

A. Real Estate Investment Trust.
B. Exchange Traded Fund.
C. Sector Fund.
D. Hedge Fund.

40) The commission charged when shares of an open-end mutual fund are purchased is called a :

A. management fee.
B. back-end load.
C. front-end load.
D. 12(b)-1 fee.

[Total 60 marks]

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Section B: Three (3) Structured Questions.
Instruction: Please write all your answers in the Answer Booklet provided.

QUESTION 1

Returns on the stock of First Boston and Midas Metals for the years 2010-2013 are shown below. The portfolio consisting of 50% First Boston and 50% Midas.

Year	First Boston	Midas Metals
2010	-18.00%	26.00%
2011	32.00%	-5.00%
2012	18.00%	3.00%
2013	1.00%	10.00%

a. Calculate return on portfolio. (6 marks)
b. Compute the average annual return for each stock (4 marks)
c. Calculate the average return on portfolio (2 marks)
d. Compute the standard deviation for the portfolio. (6 marks)
e. Are the stocks positively or negatively correlated? (1 mark)

[Total: 19 marks]

QUESTION 2

Zahnita buys bond with coupon rate 15%, 5 years maturity has par value of RM1000 and call price of RM1275. The bond first call date is in 3 years. Coupon payments are made semiannually.

a. Calculate the yield to maturity and yield to call on this issue given that it is currently priced in the market at RM 1500. (4 marks)
b. Which yield should Zahnita use to value this bond? (2 marks)

[Total: 6 marks]

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QUESTION 3

PART A

Tan owns some stocks in Petronas Dagangan Inc. The stock recently underwent a 3 for 2 stock split. If the stock was trading at RM20 per share just before the split. Solve the problems below:

a. If Tan owned 200 shares of the stock before the split, how many shares would he own after the split? (2 marks)
b. How much is each share most likely selling for after the split? (2 marks)
c. What is the reason for company issue stock split? (1 mark)

PART B

In 2014, Caroline has invested into two investment alternatives namely BinaPuri Berhad and UEM Land Berhad. Calculate the holding period return for the following two investment alternatives.

	Investment	
	Bina Puri (RM)	**UEM Land (RM)**
Cash received:		
1st quarter	1.00	0
2nd quarter	1.20	0
3rd quarter	0	0
4th quarter	2.30	2.00
Investment value:		
Beginning of year	30.00	50.00
End of year	29.00	56.00

(10 marks)

[Total: 15 marks]

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